

**STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF TARGETED FINANCIAL EXAMINATION
OF**

**GEM INSURANCE COMPANY
OF
WOODLAND HILLS, CALIFORNIA**

**AS OF
DECEMBER 31, 2003**



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August 31, 2004

Honorable Merwin U. Stewart
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, a target examination was conducted as of December 31, 2003, of

GEM Insurance Company
Woodland Hills, California

a life, accident and health plan company, hereinafter referred to as the Company.

The date of the last full-scope financial examination of the Company was December 31, 2000. This examination is limited in scope and this examination report is not intended to communicate all matters of importance for an understanding of the Company's financial condition.

SCOPE OF EXAMINATION

The purpose and scope of this examination is to substantiate the financial status of the Company on the "as of" date and review its operating status during the examination period, January 1, 2001 through December 31, 2003.

The Company's primary assets were reviewed and confirmed with financial institutions and insurance departments. Selected liabilities were reviewed and recalculated.

EXAMINATION FINDINGS

Based on procedures performed, the examination finds that:

1. The Company does not currently have any premium paying policyholders and the Company is not currently marketing any products. There were no premiums collected during 2001, 2002 or 2003. The Company received its last premium payment in November 2000.

2. The Company is a wholly owned subsidiary of Gem Holding Corporation, which is a wholly owned subsidiary of Health Net, Inc. The Safeguard Health Enterprises, Inc., is a Delaware corporation and is not an affiliate or subsidiary of Health Net, Inc.

A purchase and sale agreement between Health Net, Inc., and SafeGuard Health Enterprises, Inc., for the sale of Gem Insurance Company and its sole shareholder, Gem Holding Corporation, was executed on July 14, 2004. However, the sale has not been consummated as of the date of this report and is subject to regulatory approval.

3. The authorized control level risk-based capital requirement and total adjusted capital reported in the Company's 2001, 2002, and 2003 annual statements appear reasonable based on its financial and operating status for those periods. The Company's authorized control level risk based requirement and total adjusted capital, as of December 31, 2003, were \$31,413 and \$2,602,194, respectively.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determinations made during the examination:

Balance Sheet as of December 31, 2003

Summary of Operations - for the Year Ended December 31, 2003

Reconciliation of Capital and Surplus Account -

January 1, 2001 through December 31, 2003

Gem Insurance Company
Balance Sheet as of December 31, 2003

QUALIFIED ASSETS

	<u>Amount</u>
Qualified Assets:	
Bonds	\$ 116,170
Cash and Short-term Investments	2,607,825
Federal Income Tax Recoverable and Interest Thereon from Affiliate	155,522
Investment Income Due and Accrued	7,743
Total Qualified Assets	<u><u>\$ 2,887,260</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Liabilities:	
Interest Maintenance Reserve	\$ 224,056
General Expenses Due or Accrued	1,291
Asset Valuation Reserve	6,594
Payable to Parent, Subsidiaries and Affiliates	591
Aggregate write-ins for Liabilities	59,128
Total Liabilities	<u>291,660</u>
 Capital and Surplus	
Common Capital Stock	1,000,000
Gross Paid In and Contributed Surplus	76,657,426
Unassigned Funds (Surplus)	<u>(75,061,826)</u>
Total Capital and Surplus	<u>2,595,600</u>
 Total Liabilities, Capital and Surplus	<u><u>\$ 2,887,260</u></u>

Gem Insurance Company
Summary of Operations
for the Year Ended December 31, 2003

	<u>Amount</u>
Net Investment Income	\$ 54,570
Amortization of Interest Maintenance Reserve	<u>43,269</u>
Total	<u>97,839</u>
Disability Benefits and Benefits Under Accident and Health Policies	6,045
General Insurance Expenses	15,123
Insurance Taxes, Licenses and Fees, Excluding Federal Income Taxes	854
Aggrgate write-ins for deductions	<u>1,092</u>
Total	<u>23,114</u>
Net Gain from Operations Before Dividends to Policyholders and Federal Income Taxes	74,725
Dividends to Policyholders	<u>-</u>
Net Gain from Operations After Dividends to Policyholders and Federal Income Taxes	74,725
Federal Income Taxes	<u>11,392</u>
Net Gain from Operations After Dividends to Policyholders and Federal Income Taxes and Before Realized Capital Gains or (Losses)	<u>63,333</u>
Net Income	<u><u>\$ 63,333</u></u>

	2001	2002	Per Exam 2003
Reserves and Unassigned Funds December 31, Previous Year	\$ 4,850,617	\$ 3,147,628	\$ 3,237,656
Net Gain or (Loss)	287,835	89,123	63,333
Change in Non-Admitted Assets	-	-	-
Change in Asset Valuation Reserve	9,176	905	(5,389)
Dividends to Stockholders	(2,000,000)	-	(700,000)
Prior Period Federal Tax Adjustment	-	-	-
Net Change in Reserves and Unassigned Funds	(1,702,989)	90,028	(642,056)
Reserves and Unassigned Funds	\$ 3,147,628	\$ 3,237,656	\$ 2,595,600

RECOMMENDATIONS

None considered necessary.

CONCLUSION

The assistance and cooperation extended during the course of the examination by representatives of the Company is sincerely appreciated.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Faanu Laufiso', with a long horizontal flourish extending to the right.

Faanu Laufiso
Financial Examiner
Utah Insurance Department